

## Message Text

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ACTION EB-07

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AGR-10 CEA-01 CIAE-00 COME-00 DODE-00 FRB-01 H-02

INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-02 AID-05

CIEP-02 SS-15 STR-04 TAR-01 TRSE-00 USIA-15 PRS-01

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FM AMEMBASSY TAIPEI

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SUBJ: INVESTMENT CLIMATE IN THE ROC

REF.: STATE 165596

1. SUMMARY. THE FOREIGN INVESTMENT CLIMATE IN THE ROC CONTINUES TO BE FAVORABLE. THE GROC EMPHASIZES THE IMPORTANCE OF SUCH INVESTMENT TO THE DEVELOPMENT OF THE COUNTRY AND IS SUCCESSFUL IN CREATING INCENTIVES AND GENERAL ECONOMIC CONDITIONS WHICH ARE AN ENTICEMENT TO INVESTMENT. SPECIAL EFFORTS ARE BEING MADE TO PROMOTE DEVELOPMENT IN ELECTRONICS AND PETROCHEMICALS. HAVING REVISED THE STATUTE FOR ENCOURAGEMENT OF INVESTMENT TO RESTORE THE PREFERENTIAL TAX STRUCTURE THAT EXISTED PRIOR TO 1974, THE GROC IS NOW CONSIDERING SOME ADDITIONAL IMPROVEMENTS IN THE BASIC LEGISLATION. INTEREST IN INVESTING IN THE ROC CONTINUES ON THE PART OF THE PRIVATE SECTOR, WITH SEVERAL NEW PROJECTS AND EXPANSIONS PLANNED AND WITH THE FOREIGN BANKS MAKING NEW LOANS WITH REPAYMENT TERMS UP TO 7 YEARS. END SUMMARY

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2. THE CLIMATE FOR FOREIGN INVESTMENT IN THE REPUBLIC

OF CHINA CONTINUES TO BE FAVORABLE. THE FACT THAT THE LEVEL OF APPROVALS FOR NEW AND EXPANDED FOREIGN INVESTMENT PROJECTS HAS FALLEN BY OVER 50 PERCENT IN THE FIRST HALF OF 1975 COMPARED TO THE SAME PERIOD OF 1974 (US\$42 MILLION IN 1975 AND \$94 MILLION IN 1974) IS BELIEVED TO BE MORE THE RESULT OF WORLDWIDE ECONOMIC PROBLEMS THAN ANY WORSENING OF CONDITIONS IN THE ROC. TOTAL APPROVED FOREIGN INVESTMENT REACHED US \$1.3 BILLION BY MID-1975, WITH OVER ONE THIRD FROM THE US AND ABOUT 15 PERCENT FROM JAPAN.

3. THE GROC CONTINUES TO EMPHASIZE THE IMPORTANCE OF FOREIGN INVESTMENT TO INDUSTRIAL DEVELOPMENT OF THE COUNTRY. ALTHOUGH TECHNOLOGICALLY MORE SOPHISTICATED AND CAPITAL INTENSIVE INDUSTRIES ARE FAVORED, LABOR INTENSIVE INDUSTRIES CAN STILL RECEIVE INVESTMENT INCENTIVES ON A CASE-BY-CASE BASIS. THE IMPORTANCE OF CONSTANT ACQUISITION OF NEW TECHNOLOGY IS CLEARLY UNDERSTOOD, AND AN ELABORATE PLAN HAS BEEN DEVELOPED TO FURTHER BROADEN THE DOMESTIC BASE OF THE EXISTING ELECTRONICS INDUSTRY AND AT THE SAME TIME LEAP-FROG INTO THE MOST ADVANCED STAGE OF INTEGRATED CIRCUIT MANUFACTURING.

4. GROC EFFORTS TO DEVELOP A MAJOR PETRO-CHEMICAL INDUSTRY ARE LAGGING SOMEWHAT AS A RESULT OF DELAYS IN ARRIVING AT REASONABLE PRICING AND SUPPLY CONDITIONS AT THE GROC OWNED REFINERIES AND NAPHTHA CRACKERS; THE HIGH PRICE OF LAND ACQUISITION AND PLANT CONSTRUCTION AT INDUSTRIAL PARKS; AND EXTERNAL CONDITIONS WHICH ARE CONSTANTLY SHIFTING IN THIS HIGHLY COMPETITIVE FIELD. A SOLID FIND OF OIL OR GAS IN THE OFF-SHORE EXPLORATION NOW TAKING PLACE WOULD OF COURSE PROVIDE A VERY SIGNIFICANT STIMULUS TO LARGE INVESTMENTS TO TRANSPORT, PROCESS AND DISTRIBUTE THE RESOURCE.

5. THE LEGAL FRAMEWORK FOREIGN INVESTMENT REMAINS ESSENTIALLY UNCHANGED. HOWEVER, SEVERAL IMPROVEMENTS WERE MADE IN REGULATIONS AFFECTING THE EXPORT SECTOR (MUCH OF WHICH IS FOREIGN OWNED) IN NOVEMBER AND DECEMBER, 1974 WHEN SPECIAL EFFORTS WERE BEING MADE TO REDUCE COSTS IN THE FACE OF THE RAPID FALL-OFF OF FOREIGN DEMAND.

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CURRENTLY, THE GOVERNMENT IS CONSIDERING CHANGES IN THE LAWS CONTROLLING INVESTMENT BY FOREIGN NATIONALS AND OVERSEAS CHINESE. THESE MIGHT INCLUDE INCREASING FROM 15 PERCENT TO 20 PERCENT THE AMOUNT A FOREIGN INVESTOR WOULD BE ALLOWED TO REPATRIATE OF HIS ORIGINAL INVESTMENT, BEGINNING TWO YEARS AFTER COMPLETION OF THE INVESTMENT PLAN, AND REDUCING THE MAXIMUM TIME ALLOWED FOR ACTION BY THE FOREIGN INVESTMENT COMMISSION (FIC) ON A FOREIGN

INVESTMENT APPLICATION FROM FOUR TO TWO MONTHS.

6. OTHER ESSENTIAL INGREDIENTS OF A GOOD INVESTMENT CLIMATE, BEYOND A SOUND LEGAL STRUCTURE, ARE PRESENT IN THE ROC. THESE INCLUDE AN EENERGETIC AND EDUCATED LABOR FORCE AVAILABLE AT LOW COST; GENERALLY SOUND GOVERNMENT ECONOMIC POLICIES AND PROMPT AND EFFECTIVE IMPLEMENTATION OF THOSE POLICIES; EXTENSIVE PRE-INVESTMENT COUNSELING; AND PROMPT HANDLING OF FOREIGN EXCHANGE REMITTANCES.

7. AGREEMENT WITH THE ABOVE ANALYSIS IS APPARENT IN THE PRIVATE SECTOR AS THERE ARE CURRENTLY A NUMBER OF NEW PROJECTS OR EXPANSION PLANS IN THE WINGS, INCLUDING SEVERAL BY US COMPANIES, AND THE FOREIGN BANKING COMMUNITY REMAINS VERY ACTIVE. IN THE LAST THREE MONTHS, THREE OR FOUR SUBSTANTIAL LOAN PACKAGES HAVE BEEN SIGNED WITH REPAYMENT IN THE RANGE OF 5 TO 7 1/2 YEARS, AND IMPORTANT REGIONAL BANKS FROM THE US WITHOUT BRANCH OFFICES HERE CONTINUE TO INCREASE THEIR EXPOSURE.

8. INVESTMENT STATISTICS. BOOK VALUE OF DIRECT US INVESTMENT IN ROC NOT AVAILABLE. TOTAL US INVESTMENT APPROVALS AT END OF 1974 WERE \$428.8 MILLION TO WHICH MUST BE ADDED ESTIMATED VALUE OF INVESTMENT BY US SUBSIDIARIES ABROAD WHICH ARE NOT COUNTED BY FIC AS FROM US OF ABOUT \$110 MILLION. ARRIVED US INVESTMENT IS ESTIMATED TO BE ABOUT 70 PERCENT OF THE TOTAL OF \$540 MILLION, OR ABOUT \$375 MILLION. THERE IS NO US INVESTMENT IN MINING AND FIC DOES NOT HAVE DATA ON US INVESTMENT IN PETROLEUM FIELD, WHICH SO FAR IS ONLY IN EXPLORATION. EMBASSY SEEKING DATA FROM CPC WITH WHICH ALL FOREIGN COMPANIES MUST CONTRACT. US INVESTMENT IN MANUFACTURING, NOT INCLUDING THAT OF OFF-SHORE US OWNED COMPANIES WAS UNCLASSIFIED

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\$360 MILLION. TOTAL APPROVED FOREIGN INVESTMENT AT END OF 1974 WAS \$1.3 BILLION. AFTER US NEXT LARGEST SOURCE OF INVESTMENT WAS OVERSEAS CHINESE (WITH ACTUAL COUNTRY OF RESIDENCE KEPT CONFIDENTIAL) AT \$363 MILLION, THEN JAPAN AT \$184 MILLION.  
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